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THE

PANIC OF 1866

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THE

CURRENCY ACT.

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THE

PANIC OF 1866

WITH ITS

LESSONS ON THE CURRENCY ACT.

BY

ROBERT BAXTER, ESQ.

Variations in the rate of interest are not desirable. The more equably we can maintain the value of money in loans, the better for the commercial community and the progress of industry.—Mr. HUBBARD, M.P., *ex-Governor of the Bank of England, on the Debate on Currency*, July 31, 1866.

The province of issuing or coining paper into money is an Imperial function.—Mr. HUBBARD.

The whole business of issue is the business of the State. The profit of issues belongs to the State; and, what is much more important, the responsibility of issues also belongs to the State.—*Right Hon.* W. E. GLADSTONE, M.P., *on the same Debate.*

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PREFACE.

PANICS, however painful, have their value. Whilst they arouse by their alarms, they excite reflection, and compel those who would otherwise float thoughtlessly down the stream of incessant occupation, to pause and inquire what part of the machinery of our Financial system has given way, and whether some serious modification is not necessary. The engine of National Currency constructed by the Act of 1844, with the safety-valve of an equivalent gold deposit for all notes issued beyond 15 millions, has now for the third time come to a dead stand; and being returned on the hands of the builders, has been by them a third time sent out on temporary trial without a safety-valve, but furnished with the drag of a

penal interest. Such a process is scarcely complimentary to the mechanical genius of the age. In our social intercourse we have adopted a mechanism which conveys thousands with rapidity, cheapness, and regularity, where scores only were wont to travel; and the very enlargement of the system leads on to its perfection. In Finance our commercial capital deposited in banks has expanded until we have an amount nearly equal to one-half our National Debt lying at call and lent out on discounts. But we have no expansion of Currency. And instead of the magnitude of our operations conducing to regularity and quiet progress, every year is characterised by greater sensitiveness of the Money Market, and by more frequent and more violent changes in the rate of interest; and each succeeding panic becomes more intense and more disastrous. These anomalous results demand a calm and searching investigation, that whatever may be the cause which has brought such reproach

upon our commercial character and is so seriously hindering the sound progress of our trade, it may, so far as it is found to depend on legislative enactments, be speedily removed. If these pages in any way aid the inquiry, or conduce to the end in view, the object of the writer will have been attained.

10 Queen Square, Westminster:
November 1866.

CONTENTS.

CHAPTER I.

	PAGE
The Banks mobbed	1
The Government stormed	2
Former surrenders of Currency Act	3
Three months of 10 per cent. discount	3
Reflections	4
Panics periodic	4
Legislation should meet recurring emergencies	5
Danger of relying on periodic suspension of law	6
Mortifying contrast between England and France in monetary affairs in 1866	6
Important questions raised by these disasters	8

CHAPTER II.

ON THE MODIFICATION OF THE CURRENCY ACT.

Ought the Currency Act to be modified?	9
Has that Act attained its object of convertibility of notes without injury to the country?	9
Table of changes in rate of interest in each year from 1844 to end of 1865	11
Such changes have rapidly multiplied	12

PAGE

Table of amount of each change 12
Amount increasingly great 14
Table of rate of interest in Paris, 1844 to 1866 . . 15
Tables of like changes in Vienna and Frankfort . . 16
Conclusions that Currency Act requires modification . 16

CHAPTER III.

ON THE CHANGES WHICH HAVE OCCURRED IN OUR MONETARY AFFAIRS AS THEY AFFECT BANKING AND DISCOUNT SINCE THE ACT OF 1844.

On the change in banking affairs since 1844 . . 18
Deposits in 1830 probably only 30 millions . . 19
In 1844 raised to 70 millions 19
In 1856 over 200 millions 19
In 1866 over 350 millions 20

CHAPTER IV.

On the change in the relative position of the Bank of England 21
Bank of England private deposits in 1844 equalled all London Joint Stock Banks 21
In 1866 London Joint Stock deposits 71 millions, Bank only 13 21
Currency arrangements affected by growth of deposits . 22

CHAPTER V.

THE TRADE OF THE COUNTRY MEASURED BY ITS IMPORTS AND EXPORTS IN 1844 AND 1865.

Tables of trade of the kingdom, 1844 to 1866 . . 23
Growth of trade threefold 23

CHAPTER VI.

PAGE

Comparison of currency in 1844, 1856, 1866, 1834 . 24
Very little expansion 25
Bills, cheques, and Bankers' Clearing-house supplied currency 25
Enlarged note currency still called for in panics . . 26
Cannot be had under Currency Act 26
Effects of an inadequate currency 26
Panics produced by the fear of it 28

CHAPTER VII.

INQUIRY INTO THE CAUSES OF THE FAILURE OF THE CURRENCY ACT.

Causes of failure of Currency Act 30
350 millions of deposits at call 30
Subject to sudden withdrawal 31
Reserves very inadequate 32
Bank of England reserve 32
Amount of Bank reserve and bullion the barometers of the money market 33
Action on note reserve 34
Variations of reserve too small to guide rate of interest 35
Action on the bullion 35
Variations of the bullion too early acted on . . 40
Result, constant change in rate of interest, and injury to trade 40
Occurs equally in times of prosperity as of pressure . 41
Bank of England too small to supply capital, and pressed unreasonably in panics 43
Inconvenience of uniting banking with currency . 44
Aggravated by Bank becoming the Bankers' Bank . 45
Failure of Act of 1844 arises from enlargement of deposits 46

CHAPTER VIII.

ON THE QUESTION WHETHER THE CURRENCY SHOULD NOT BE WHOLLY SEPARATED FROM THE BANK OF ENGLAND, AND MANAGED AS A GOVERNMENT DEPARTMENT.

PAGE

Favoured by leading witnesses before Select Committee of 1840 48
Changes since 1844 seem to warrant it 50
Public policy requires it, to check constant changes of interest 52
Rate of interest should be fixed, by meeting of bankers from the whole kingdom, on marked increase of discounts 53
The frequent changes of the last eleven years unjustifiable 54
Foreign demand for bullion, unless permanent, will not warrant increase of rate 56
The separation would not injure, but benefit, the Bank of England 59
Would lead to each bank providing its own reserve . 63

CHAPTER IX.

THE INQUIRY REMAINS: WHAT PRECISE MODIFICATIONS OF THE CURRENCY ACT ARE DESIRABLE?

What are the modifications necessary in the Currency Act? 65
Provision necessary to meet times of panic 65
Power to issue on Government securities for short periods, charging interest, will give it 67
In olden times the price of the Funds the barometer of the money market 69
This would again happen, if Act amended, and bankers would increase their reserves 71

CHAPTER X.

AS RESPECTS THE FUTURE SUPPLY OF GOLD, ARE ANY SPECIAL PROVISIONS NECESSARY?

PAGE

How shall the future supply of gold be secured? . 72
Table of drain of bullion for 22 years before the Currency Act 73
The like 22 years since the Act 74
Deductions from these tables 76
Suggestions to stop drain of bullion, made to Select Committee of 1840 by Lord Overstone, an equivalent reduction of circulation 79
Its failure 79
By Mr. Tooke, the raising the rate of interest . . 81
Effect of advance of rate of interest 81
No artificial plan will prevent drains of gold. Course of trade will return it 84
Government should take responsibility of supply of gold 85
The full adoption of the principle of basing notes on an equivalent deposit of gold would do it . . . 90
Such deposit not to full extent necessary . . . 91
Government responsible for conversion would maintain an adequate deposit 94
Wealth of England will always command gold . . 96
Restriction of a convertible currency will not check speculation, or appreciably diminish capital . . 98

CONCLUSIONS 100

THE PANIC OF 1866.

CHAPTER I.

The banks mobbed.

If a man of business, matured by the experience of some forty years, had traversed Lombard Street on the second Friday in last May (1866), he would have encountered a scene not only new, but alarming even to his well-trained nerves.

The following is the account from the leading article of *The Times* of May 12, 1866 :—

'If anything can justify a suspension of the Bank Charter Act, the panic which swayed the City to and fro yesterday may excuse the step, although we believe the reign of terror was already approaching its end, and would have speedily ceased, had no infraction of the law been permitted. Even now it is probable that the licence allowed to the Bank will not be used. It cannot, however, be denied that

about midday yesterday the tumult became a rout.

'The doors of the most respectable banking houses were besieged, more, perhaps, by a mob actuated by the strange sympathy which makes and keeps a mob together than by creditors of the banks; and throngs heaving and tumbling about Lombard Street made that narrow thoroughfare impassable. The excitement on all sides was such as has not been witnessed since the great crisis of 1825, if indeed the memory of the few survivors who shared that panic can be trusted when they compare it with the madness of yesterday. Nothing had happened since the day before to justify such a fear as was everywhere shown. Rumour, however, like the false woman in the Laureate's legend, "ran riot among the noblest names," and left no reputation unassailed. Each man exaggerated the suspicions of his neighbour; and until a report, at that time unfounded, was circulated in the afternoon, that the Government had authorised the Bank directors to issue notes to the extent of five millions beyond the limit imposed by the Bank Charter Act, it seemed as if the fear and distrust of the commercial world had suddenly become boundless.'

The Government stormed.

Had he been at the side of the Chancellor of the Exchequer on the same evening, he would have heard the Governor of the

Bank of England and the Directors of the great Joint Stock Banks, with representatives of the private Banks, of London recount their own more calm and weighty apprehensions, and would have witnessed the exemplary resignation with which our Finance Minister bowed to the necessity of the case, and, resorting to the portfolio of 1857, thence educe, copy, *cum variorum*, and sign a despatch embodying the stereotyped expression of the 'regret' with which Her Majesty's Government authorised the Bank of England to break the currency law of the country, and issue notes *ad libitum*.

Former surrenders of the Currency Act.

The memory of our business friend would also carry him back, not only to 1857, but further to 1847, and remind him that in each of these years the same currency law, which was first enacted only in 1844, was in like manner suspended, although not under the impulse of so serious a Lombard Street *émeute*.

Three months of 10 per cent. discount.

These notable scenes of our current year introduced a discount rate of 10 per cent., which, with the very praiseworthy object of toning down to greater soberness the

speculative tendencies of the country, was continued unremittingly for three months until a deputation, from the same Joint Stock Banks who originally prompted the infliction, waited upon our Finance Minister to entreat his aid for its removal.

Reflections. The reflections of our friend upon these transactions would probably be 'Very unbusinesslike!' 'Very grave error to enact a law in 1844 which we are obliged to suspend in 1847!' 'Very unlike the practical Englishman to continue this law after it had broken down a second time in 1857, in order that it might again collapse with greater mischief in 1866!'

Panics periodic. These philosophic criticisms are met by the remark, 'You forget, Sir, the cause of failure. It is an unreasoning panic. Such panics occurred before the Act of 1844. In 1825 was a panic, arising from a drain of bullion to South America to pay for our mining speculations there, which ruined upwards of seventy banks; and, according to the celebrated saying of Mr. Huskisson, brought the country "*within twenty-four hours of barter.*" In 1837 and 1839 were other panics, in which the Bank of England

was only saved by the loan of two millions from the French banks. 'Those in 1847, 1857, and 1866 are of a like character. In point of fact, about every ten years there is a panic arising from some form of overwrought speculation, and this decennial ague is become a chronic disease of the British mercantile constitution, and under the impulse of such a panic this law would shut the Bank of England itself.'

Legislation should meet recurring emergencies.

'I only reason as a man of business,' retorts our imperturbable friend. 'If it be true, as you say, that panics are known to be periodic and are sure to occur, and that our currency laws must be suspended or the Bank of England will be stopped, I should have expected a law which, instead of aggravating, would alleviate the panic and be suited to the crisis when it arrives. To my business mind it appears that when the Act was found by experience unsuited to the mercantile emergencies of the nation, it should have been modified; and that now, after a third failure, to continue to rely upon the power of suspension is unstatesmanlike and highly dangerous.

'Suppose, for instance, Her Majesty's Go-

Danger of relying on periodic suspension of law.

vernment, having digested their whitebait dinner at Greenwich, should have devoted themselves to the pursuit of grouse in the Highlands, or to tickle salmon in Norwegian waters—far beyond the reach of that (to men at leisure) fell instrument of torture the Telegraph, and where the writs of Her Majesty's Post-office do not run—when the panic storm signal is hoisted, and Bank governors and directors crowd into Downing Street as vessels to the shelter of their port, the last million of the Bank reserve might be drawn out and the doors of the Bank closed before the letter, wet with the Government tears of "regret," can reach London, and the Act of 1844, which was passed to insure the conversion of Bank notes into gold, will have converted them into dishonoured paper.'

Mortifying contrast between England and France in monetary affairs in 1866.

'I cannot express' (continues our business friend) 'the extreme mortification with which I compare our monetary position with that of France. Whilst here the people have mobbed the banks, and the banks the Government, and our trade has for three months continuously withered under a rate of 10 per cent. discount—with

banks, capitalists, and merchants all hoarding money if they possess it, and those who need it asking in vain at every usual source of supply—the Bank of France has maintained an unbroken composure with a rate of 3½ per cent., and has been weekly adding to its stock of bullion until it has reached the unprecedented amount of upwards of 29 millions sterling.'

'This mortification is aggravated by the knowledge that English bills, to the amount of millions, which could not find accommodation in England, have been discounted in Paris; and my agony reaches its climax under the information that the very act of our Government in suspending our currency laws has damaged our credit abroad more even than the failure of banks, contractors, and mercantile firms which created so much dismay at home; and has, under the apprehension of an almost universal English bankruptcy, led to the withdrawal of the 40 millions of French capital which is ordinarily employed in London.'

'We have been used to consider ourselves superior to our talented neighbours

in the drudgery and conduct of mercantile affairs, and to point to the extent of our transactions as the proof; but the events of the last three months have shown us that the scarcity of money which has brought us into a comparison so humiliating is not an European, but merely an English catastrophe, the fruit of our own speculative folly and bungling legislation.'

Important questions raised by these disasters.

These are in substance the unwelcome thoughts which have passed, and are passing, through the minds of men of business on the events of the late three months, and may form a fitting prelude to the inquiry by comparison and consideration of facts and figures.

1. Does the arrangement of the currency under the Act of 1844 require modification to suit it to the mercantile emergencies of the nation?

2. Have not our monetary affairs connected with banking and discounts so outgrown the standard of 1844 as to render it necessary to disconnect the currency from the Bank of England and manage it as a Government department?

CHAPTER II.

ON THE MODIFICATION OF THE CURRENCY ACT.

Ought the Currency Act to be modified?

It would almost seem that the incontrovertible fact of the suspension of the Act on every trying crisis which has occurred since it was passed—in 1847—in 1857—in 1866—is conclusive that the Act should be modified.

It cannot be wise to trust to the rough remedy of suspending it. The Act ought to be such as will adapt itself to a time of panic as well as to a time of prosperity.

We shall see when we come to facts that it proves itself unsuited even to times of great prosperity.

Has that Act attained its object of convertibility of notes without injury to the country?

The first inquiry as matter of fact will be:—Has it attained its object of ensuring the convertibility into gold of the Bank notes without disturbing the even course of monetary affairs by its operation?

The more perfect the working of this arrangement the fewer will be the changes in the rate of interest (which is the course taken to rectify it), and the smaller the amount of each change.

On the other hand, the more imperfect or unsuitable the arrangement is to attain its object, the more frequent and greater will be the changes.

Currency is not, like capital or income, desired in order to be held, but is merely the medium by which the transfer of capital or income is made; and the arrangement for supplying currency ought to be one which works smoothly and insensibly, without jerks and without impediments.

The Act of 1844 provides that beyond (what is now) 15 millions sterling, for which notes are issued without gold (because it has been found throughout a series of years that more than this amount is absorbed by the home circulation of the country, and does not require to be exchanged for gold), notes shall only be issued to the amount of gold deposited.

This is—beyond the 15 millions—equi-

valent to a gold currency; because the gold representing the note is impounded so long as the note is in circulation.

The Bank buys gold for currency at a fixed price of 3*l.* 17*s.* 10½*d.* per ounce, neither more nor less.

When the Bank considers the stock of gold is getting low, it raises the rate of interest, in the expectation that the higher rate of interest will stop the export and attract capital from abroad, and that this capital will be sent in gold.

The following Table will show the number of changes made in the rate of interest in each year from 1844 *to the end of* 1865.

Table of changes in rate of interest between 1844 and 1866.

TABLE I.

Year	Number of Changes	Average rate of each year per cent.	Remarks
1844	1	4	
1845	3	3	
1846	1	3¼	
1847	8	5	Year of panic
1848	3	3¾	
1849	1	3	
1850	1	2½	
1851	0	3	
1852	2	2	
1853	6	3½	
1854	2	5	

Year	Number of Changes	Average rate of each year per cent.	Remarks
1855	8	$4\frac{3}{4}$	Russian war
1856	8	$5\frac{3}{4}$	
1857	9	$6\frac{3}{4}$	Year of panic
1858	6	$3\frac{1}{4}$	
1859	5	$2\frac{3}{4}$	
1860	11	$4\frac{1}{4}$	
1861	11	$5\frac{1}{4}$	
1862	5	$2\frac{1}{2}$	American war
1863	12	$4\frac{1}{2}$	
1864	15	$7\frac{1}{2}$	
1865	16	$4\frac{3}{4}$	
	134		

Such changes have rapidly multiplied.

It will be seen that for the first 11 years of the operation of the Act the changes of the rate of interest were 28
In the second series of 11 years the changes were 106
The annual average number of changes for the first period is slightly under 3
The annual average of the second slightly under . 10

The first equal to a change every four months; the second, one nearly every month. In the last two years the changes have been 15 and 16 respectively.

These facts unmistakeably indicate that, far from working smoothly, the law has led to such frequent changes in the rate of interest as to be spasmodic instead of regular, and to multiply changes in the place of preventing them.

Table of amount of each *change.*

The growing amount of each change is as startling as the number of them.

The following Table shows the amount of each change within the same period.

TABLE II.

Year	Month	Rate of Discount, per cent.	Range of rate within the year, per cent.
1844	Sept.	4	
1845	March	2½	½
	Oct.	3	
	Nov.	3½	
1846	Aug.	3	
1847	Jan.	3½	4½
	Jan.	4	
	April	5	
	Aug.	5½	
	Oct.	8	
	Nov.	7	
	Dec.	6	
	Dec.	5	
1848	Jan.	4	1
	June	3½	
	Nov.	3	
1849	Nov.	2½	
1850	Dec.	3	
1851	—	3	
1852	Jan.	2½	½
	April	2	
1853	Jan.	2½	2½
	Jan.	3	
	June	2½	
	Sept.	4	
	Sept.	4½	
	Sept.	5	
1854	May	5½	½
	Aug.	5	
1855	April	4½	3
	May	4	
	June	3½	
	Sept.	4	
	Sept.	4½	
	Sept.	5	
	Oct.	5½	
	Oct.	6½	
1856	May	6	2
	May	5	
	June	4½	
	Oct.	5	
	Oct.	6½	
	Nov.	7	
	Dec.	6½	
	Dec.	6	
1857	April	6½	4½
	June	6	
	July	5½	
	Oct.	6	
	Oct.	7	
	Oct.	8	
	Nov.	9	
	Nov.	10	
	Dec.	8	
1858	Jan.	6	3½
	Jan.	5	
	Jan.	4	
	Feb.	3½	
	Feb.	3	
	Dec.	2½	
1859	April	3½	2
	May	4½	
	June	3½	
	June	3	
	July	2½	
1860	Jan.	3	3
	Jan.	4	
	March	4½	
	April	5	
	May	4½	
	May	4	
	Nov.	4½	
	Nov.	5	
	Nov.	6	

TABLE II.—*continued.*

Year	Month	Rate of Discount, per cent.	Range of rate within the year, per cent.	Year	Month	Rate of Discount, per cent.	Range of rate within the year, per cent.
1860	Nov.	5	3	1864	Jan.	8	3
	Dec.	6			Feb.	7	
1861	Jan.	7	4		Feb.	6	
	Feb.	8			April	7	
	March	7			May	8	
	April	6			May	9	
	April	5			May	8	
	May	6			May	7	
	Aug.	5			June	6	
	Aug.	4½			July	7	
	Aug.	4			Aug.	8	
	Sept.	3½			Sept.	9	
	Nov.	3			Nov.	8	
1862	Jan.	2½	½		Nov.	7	
	May	3			Dec.	6	
	July	2½		1865	Jan.	5½	3
	July	2			Jan.	5	
	Oct.	3			March	4½	
1863	Jan.	4	5		March	4	
	Jan.	5			May	4½	
	Feb.	4			May	4	
	April	3½			June	3½	
	April	3			June	3	
	May	3½			July	3½	
	May	4			Aug.	4	
	Nov.	5			Sept.	4½	
	Nov.	6			Oct.	5	
	Dec.	7			Oct.	6	
	Dec.	8			Oct.	7	
	Dec.	7			Nov.	6	
					Dec.	7	

The average amount of change for the first period of 11 years is under . 1 per cent.
The average of the second period over . 3 „
And of the first 11 years there were :—
5 years without any change.
3 years with a change of . . ½ „
4 „ „ . . 1 „
1 „ „ . . 2½ „
1 year of panic (1847) . . 4½ „

Amount of each change of interest increasingly great.

Out of the second 11 years there were :—

1 year with a change of	.	.	½ per cent.
2 "	"	.	. 2 "
4 "	"	.	. 3 "
1 "	"	.	. 3½ "
1 "	"	.	. 4 "
1 year of panic (1857)		.	. 4½ "
1 year of prosperity (1863)			. 5 "

It will be useful to compare these changes with those which have occurred at the Bank of France throughout the same period.

TABLE III.

CHANGES OF INTEREST IN BANK OF FRANCE.

Table of changes of rate of interest in Paris, 1844 to 1866.

England	Year	France	Rate in France per cent.	Average of the year in England
1	1844	0	4	4
3	1845	0	4	3
1	1846	0	4	3¼
8	1847	1	5	5
3	1848	1	4	3⅜
1	1849	0	4	3
1	1850	0	4	4½
0	1851	0	4	3
2	1852	1	3	2
6	1853	1	4	3½
2	1854	2	5 and 4	5
8	1855	2	5 and 6	4¾
8	1856	0	5 and 6	5¾
9	1857	1	5½	6¾
6	1858	4	4½ to 3	3¼
5	1859	2	4 to 3½	2¾
11	1860	1	4½	4¼
11	1861	7	5 to 7	5¼
5	1862	4	4 to 3½	2½
12	1863	8	3½ to 7	4½
15	1864	11	7 to 4½	7½
16	1865	6	3 to 5	4¾
Total 134		52		

TABLE IV.

Table of like changes in Vienna and Frankfort.

We subjoin the changes for the same period at Vienna, and for the last 11 *years at Frankfort.*

VIENNA.

	Changes	Rates
1844 to 1856, September .	1	4
1856 to 1860, September .	1	5
1860 to 1862, February .	2	5½ to 5
1862 to 1866 . . .	2	5 to 5½
22 years Total	6	

FRANKFORT.

1855	3	2½ to 4½
1856	8	3 to 6
1857	10	3½ to 6
1858	7	3 to 5
1859	4	3 to 4½
1860	3	2 to 3
1861	2	3 to 4
1862	2	3 to 4
1863	4	3 to 5
1864	7	3 to 5½
1865	6	3½ to 5½
11 years Total	56	

These facts lead us necessarily to the conclusions—

Conclusions that Currency Act requires modification.

1. That the Act of 1844 has been, or has become, so unsuitable to the monetary affairs of the country as to require revision.
2. That under it the changes in the rate

of interest are becoming year by year more frequent and more severe.

3. That the comparison of our own with the other money markets of Europe shows no such frequent changes to be necessary.

CHAPTER III.

ON THE CHANGES WHICH HAVE OCCURRED IN OUR MONETARY AFFAIRS AS THEY AFFECT BANKING AND DISCOUNT SINCE THE ACT OF 1844.

On the change in banking affairs since 1844.

THIRTY years ago the deposits in the banks of the United Kingdom consisted of balances which noblemen and wealthy commoners prided themselves on keeping, and which less wealthy or less ambitious gentlemen, merchants, and traders found it convenient to leave, to be prepared for the exigencies of their engagements. These balances were never left for the mere purpose of getting interest. The London banks allowed no interest. The English country banks allowed about one-half the current rate to those customers who asked for it. The Scotch banks allowed interest somewhat nearer to the market-rate; and the Irish banks adopted a varying practice, but

their deposits were not supposed to be great.

Deposits in 1830 probably only 30 millions.

The total amount of deposits in the banks of the kingdom, before the establishment of Joint Stock Banks, was probably under 30 millions.

In 1844 raised to 70 millions.

Shortly before 1844 the system of Joint Stock Banks, which had long existed in Scotland, and which had been introduced here soon after the panic of 1825, but had not taken root, began to extend in England, and a practice of allowing interest within about 1 per cent. of the current rate was adopted. In 1844 the private deposits of the Bank of England were about 8 millions, and the deposits in the five great Joint Stock Banks of London were slightly under 8 millions. The total deposits in the United Kingdom may be reckoned as under 70 millions at the date of the Currency Act.

In 1856, over 200 millions.

In 1856–7 the system of depositing money in banks for the express object of deriving an income had so grown, that upon a careful computation it was found the total deposits of the United Kingdom would exceed 200 millions.

The London Joint Stock Banks, with the Bank of England, held	£50,000,000
The Private Banks of London estimated to exceed	20,000,000
The evidence of the Governor of the Bank of England, before the Bank Committee, gave the Scotch deposits at . . .	50,000,000
The Country Banks of England were estimated at	50,000,000
The Banks of Ireland at	30,000,000
Total	£200,000,000

In 1866, over 350 millions.

In 1865–6 this system of deposits has so much further enlarged, that upon the official reports of the various Joint Stock and Chartered Banks of the United Kingdom, made up to the end of 1865, the total amount deposited (without reckoning important banks whose reports do not disclose their deposits, but including 21 millions of the Bank of England) was 235 millions.

(The London Joint Stock Banks had increased from 33 millions in 1856 to 71 millions.)

We may fairly estimate the deposits of the Private Banks of the United Kingdom, including those Joint Stock Banks omitted above, at 115 millions, making a total of 350 millions.

CHAPTER IV.

To complete the picture, it will be well to contrast the Bank of England of 1844 in its then relative position towards the other banks of the metropolis with the position it now occupies.

On the change in the relative position of the Bank of England.

In 1844 (Feb. 24) the Bank of England held deposits—

Bank private deposits in 1844 equalled total of London Joint Stock Banks.

Public	£4,300,000
Private	8,400,000
Total	£12,700,000
Compared with the total deposits of all the London Joint Stock Banks of .	£8,000,000

In 1865–6 the Bank of England deposits (Dec. 30, 1865) were—

In 1866, Joint Stock Deposits 71 millions, Bank only 13.

Public	£8,500,000
Private	13,200,000
Total	£21,700,000
The London and Westminster Bank held in deposits on the 13th of December, 1865	£19,200,000
London Joint Stock	18,200,000
Union Bank of London	17,700,000
London and County	12,800,000

Thus, whilst in 1844 the Bank of England was in its private business equal to all the London Joint Stock Banks, there are now three such banks, each of which has more private business than the Bank of England by nearly 50 per cent., and a fourth has an equal business. Conjoined the London Joint Stock Banks have now 71 millions of deposits compared with the Bank of England 13 millions, or more than five times the amount.

Within the same period, 1844 to 1866, the banking deposits of the kingdom had, as we have seen, increased from 70 millions to 350 millions.

Currency arrangements affected by growth of deposits.

Arrangements of currency, which might be comparatively harmless when managed by a bank representing a predominating power of capital and deposits to control a market of 70 millions, may be altogether out of place if the governing Bank has sunk to a fourth-rate position, and is required to provide for a market of 350 millions.

CHAPTER V.

THE TRADE OF THE COUNTRY MEASURED BY ITS IMPORTS AND EXPORTS IN 1844 AND 1865.

Tables of Trade of the Kingdom, 1844 to 1866.

To aid our estimate of the growth of the trade transactions of the country, and to enable us to understand the sphere of employment for our enlarged banking deposits, we have only to compare our imports and exports of those periods.

In 1844:—

Imports	£75,449,374
Exports	58,584,292
	£134,033,666

In 1865:—

Imports	£271,134,969
Exports	218,858,316
	£489,993,285

Growth of Trade threefold.

Thus, speaking roundly, the country is doing three times the business in 1866 that was done in 1844.

CHAPTER VI.

Comparison of Currency in 1844, 1856, 1866, 1834.

WE have marked the growth of banking deposits: it will be well to inquire after the expansion of the currency itself.

In 1844 the returns of the note circulation of the United Kingdom were as follows (January 6):—

Bank of England	Other Banks	Total
£18,964,000	£16,810,259	£35,774,259

In 1856, as follows:—

£19,396,000	£17,097,035	£36,493,035

In 1865, Dec., as follows:—

£21,294,000	£17,362,138	£38,656,138

It may be well to add, by way of further comparison, the circulation.

In 1834 (January):—

£19,234,500	£18,621,458	£37,855,958

Besides the paper there is our gold circulation, of which we have no accurate measure. In 1857 the Bank Governor

estimated it at 50 millions, and Mr. Newmarch at 70 millions.

Very little expansion.

These returns show how very little the note circulation of the kingdom expanded, and how little sympathy existed between the expansion of the banking deposits and that of the note currency.

The reason is not that gold avails for our enlarged operations; for although our business has tripled, and, therefore, gold for payment of wages will have increased, yet none of the larger transactions are conducted in gold. To pay 100,000*l.* in gold would require a carting establishment. It is the system of bills and cheques, with the beautiful arrangement of the Bankers' Clearing-house, which has provided the country with an enlarged currency suited to her extended trade.

Bills, cheques, and Bankers' Clearing-house supplied the place of currency.

We cannot be too emphatic on this head. The extended business of the country is transacted not in a gold currency, but in a paper currency—not expanding by bank notes, but by private bills and cheques. To transact our business in gold would be all but impossible were gold at hand unlimitedly.

Enlarged note currency still called for in panics.

When a panic comes, it is as observed by the *Economist* (May 12, 1865):—'In a panic, this currency of cheques is much disturbed, and in part destroyed, and we fall back upon Bank notes.' But this period (a panic) is just the period in which for currency purposes Bank notes are not to be had. The banker (as added by the *Economist*) in tranquil times 'does not think it necessary to keep many Bank notes.' In the time of panic, however, he says, 'My creditors may come for their money. I must have Bank notes.'

Cannot be had under Currency Act.

But the Bank notes cannot be suddenly expanded. The provision of gold against which, under the Act of 1844, they can only be issued, is not made, and a dead lock may occur before the gold arrives.

The effects of an inadequate currency.

The confusion which results from a want of currency is utterly unintelligible to those who have never carefully considered it. Mr. Huskisson, in 1825, described it as a crisis in which we were '*within twenty-four hours of barter.*' In 1847 the cry to the Chancellor of the Exchequer, as reported by him to the House of Commons (Parl. Deb. xcv. 399), was

'*Let us have notes.*' It is not capital which fails, but the power of converting capital invested in any kind of property into ready money or currency. The paralysis is intelligible. We have ordinarily sales of property or settlements of accounts daily, to the amount, probably say, of 10 millions. The Bankers' Clearing-house alone passes 3 or 4 millions. Our whole circulation of notes, including country notes as well as Bank of England, is only 40 millions, so that we suppose our currency is *turned over* every four days. If the bankers were alarmed, and impounded 10 per cent. of their deposits in notes, 35 out of the 40 millions would be locked up. If the public became alarmed, and began to hoard Bank notes, the same effect would be produced. As the receivers of Bank notes lock them up to see what will happen, the current of circulation is arrested and business is brought to a stand still. An effort is made to sell Consols. No one will buy. Or some sagacious man, with his hoard of notes, offers to buy only at 25 per cent. below the value, and the holder will not sell. A borrower on bills

has his acceptance due. He cannot pay it and he cannot renew it. A dead lock results not from want of capital, but of currency—not that there is a want of property to be realised, but because there is no ready money or currency with which to buy it. Our enormous wealth of thousands of millions is all represented by our ready money, consisting of 40 millions of notes, and 50 or 80 millions of gold. This ready money suffices to represent the thousands of millions in all the daily transactions of life when confidence is unimpaired, and every man as soon as he receives ready money sends it to his banker, and the banker, fearing no crisis, hands it out again in discount to his customer. But create an alarm, and the receiver locks it up instead of taking it to the bank, and the banker sends his customer away without his money.

Panics produced by the fear of it.

Let the impression get abroad that the Bank of England notes are likely to be exhausted, and everybody will rush for them and lock them up to make usury by them.

A provision should be made for such

a contingency as a panic, so that when hoarding interrupts the necessary flow of currency, a new stream may under proper safeguards be created, and the course of business sustained. But in point of fact this phase of the panic could not occur if it were not for the Currency Law, under which business men know the power of the Bank to issue may be exhausted. Let the law be one under which currency may always be had under proper limitation and on due security, and this worst feature of a panic will not be developed. In the debate in 1847, before alluded to, the Chancellor of the Exchequer told the House the City bankers and merchants assured him, '*Only tell us that we can get notes, and that will at once restore confidence.*' It is the mere fear of this exhaustion which produces the convulsion. Dispel this fear and you escape the catastrophe.

CHAPTER VII.

INQUIRY INTO THE CAUSES OF THE FAILURE OF THE CURRENCY ACT.

Causes of failure of Currency Act.

HAVING thus most of the material facts before us, we may carefully inquire into the causes of so evident a failure of the Act of 1844.

350 millions of deposits at call.

In so doing we must remember the enormous capital of 350 millions sterling deposited in our banks is almost wholly placed there at call. To some extent it is lodged under terms of three or six months' notice, or for a certain period of twelve months, at a fixed allowance of interest; but these exceptional cases are not sufficiently numerous to affect the general position that the deposits are held at call.

The employment of the deposits is by advances on bills of exchange or on customers' overdrawn accounts. The bills are for periods generally not exceeding three months, although often six and sometimes

even twelve months; the overdrawn accounts are all at call.

The borrowers employ the money in their business—some of it periodical and some regular. When a merchant has been long accustomed to these advances he cannot avoid leaning upon them, and their interruption will always cause inconvenience, and may often produce ruin.

Subject to sudden withdrawal.

It would be appalling to contemplate any possible state of circumstances which should lead to the withdrawal of even one-third of these deposits from the banks or from the trades and businesses in which it has been employed, yet the whole is only held by the banks at the will of the depositor, and the merchant borrowers cannot in any case demand the renewal of their bills.

It is obvious, under the changing circumstances of adverse seasons, domestic troubles, foreign wars, or new or more promising investments, changes will occur in the amount of the deposits without adverting to an actual panic. On 350 millions the withdrawal of even 10 per cent. would take away 35 millions, and to

that extent lower the bankers' power of accommodation.

Reserves very inadequate.

We ask with considerable anxiety what reserves do the bankers thus liable to withdrawals maintain, in order to be prepared to meet them?—and the answer is far from satisfactory.

A small margin over the amount which the experience of some years defines as the standard of daily calls is all the banks have actually in their till. For the rest, whatever further sum is marked as an immediate reserve is by the London banks placed in the Bank of England, and forms part of its deposits on which it trades; and is by country bankers sent up to bill brokers on call, and by them lent out on bills of exchange. Thus practically there is no idle reserve of any appreciable amount compared with the mass of deposits.

Bank of England reserve.

The only exception is in the case of the Bank of England. This establishment keeps and publishes weekly the amount of its banking reserve at the same time that it publishes the amount of bullion in the Issue Department. This Bank reserve constitutes practically the reserve for the

whole kingdom. The London bankers place their reserve in the Bank of England, and bills which are beyond the amount available at the bill brokers' are brought to the Bank for discount. Unless current business of the Bank of England is cut short, any expansion of discount acts immediately on the Bank reserve.

The old standard of reserve in the Bank of England was one-half its current liabilities. Thus, if its deposits and outstanding bills amounted to 16 millions, its reserve would be 8 millions. This standard has, however, been gradually lowered, and for many years the Bank has been considered in a healthy state if the reserve is one-third of the liabilities.

Amount of Bank reserve and bullion the barometers of the money market.

The amount of reserve and the amount of bullion form what our Transatlantic friends would call '*the agony nerves*' of the Bank of England, and their relation towards each other is obvious. When bullion sinks, notes must be cancelled; and unless advances are withdrawn, the reserve will proportionately decrease.

If the reserve sinks from enlargement of discounts, the Bank will raise the rate

of interest on the ground that discounts are trenching on the reserve. If bullion is withdrawn, interest is advanced, on the ground that foreign exchanges are adverse, and the outflow of bullion will lower the circulation and diminish the reserve.

Action on the note reserve.

Let us carefully analyse the action on these agony nerves. The note reserve, if taken at one-third of the liabilities, would, since the average deposits of the Bank do not exceed 21 millions, be ordinarily 7 millions. Now, remembering the amount of deposits under discount is 350 millions, it follows that a withdrawal of a portion so small as 1 per cent. would take away 3½ millions—one-half the reserve, and thrill this *agony nerve* so as to educe sharp, spasmodic action on the rate of interest.

But a system which will permit an additional call for so small a fraction of deposits as 1 per cent. to alarm the Bank of England and lead to the raising the rate of interest is simply absurd. Assume the rate to be increased 1 per cent. on the 350 millions, the trade of the country would in a twelvemonth pay the whole 3½ millions in the additional interest.

A reserve of 7 millions in 1844 would have represented one-tenth of the deposits of the kingdom; and a withdrawal of 3½ millions from the reserve would have marked an enlargement of discounts to the extent of 5 per cent. on the then deposits of 70 millions. But a variation in the same ratio—5 per cent. upon deposits of 350 millions—would require an expansion of discounts to the extent of 17½ millions, and might justify an increase in the rate of interest on the ground of an enlargement of demand.

Variations of reserve too small to guide rate of interest.

The thrills of the *Reserve* agony nerve of the Bank of England are obviously no longer a safe indication that the demand of capital is so exceeding the supply as to require interest to be raised to check the demand, since the withdrawal of one-half its whole amount is only equal to 1 per cent. on our enlarged sphere of 350 millions of deposits.

Action on the bullion.

As respects the *Bullion* nerve of the Bank, other and more intricate considerations present themselves. The action on the note reserve is strictly one of demand and supply of capital at home; but the

action on the bullion may be not only a call for gold for currency at home, but in most cases will be entirely foreign, without any connection with our home business. Gold is not a standard of a fixed value, but varies in value like tea or any other article of commerce. Its fluctuations are not great, but are large enough to make it profitable at some periods to take it away from England to those countries where it will command a higher price. Between 1800 and 1821 it varied in price from 3*l.* 17*s.* 10½*d.* to 5*l.* 4*s.* per ounce.

We have affixed to it a uniform price of 3*l.* 17*s.* 10½*d.* per ounce, and at this price we buy from all comers. On the other hand, if gold rises elsewhere to the value of 4*l.* or 5*l.* per ounce, we do not give more, and it will be the interest of the bullion brokers to sell it away as fast as we collect it. A broker with Bank notes can demand it at our fixed price; and if he can command a profit from its sale elsewhere, we have no means of keeping it.

Our currency law does not contemplate this, but expects the offer of a price of 3*l.* 17*s.* 10½*d.* per ounce will always secure

an adequate stock of bullion to be in reserve in the Issue department of the Bank.

That Act beyond 15 millions of notes requires a deposit of bullion for every note issued. The actual note circulation of the Bank as distinguished from the issues has scarcely varied since 1844 :—in 1846 it was 22 millions, in 1856 21 millions, in 1866 increased during the panic only to 26 millions. Taking 22 millions as the normal circulation, the Bank must hold, in addition to the 15 millions of notes issued without gold, 7 millions of bullion. But as the whole will be out of the hands of the Bank, in active circulation, if the Bank is to maintain a reserve of 7 millions of notes, it must have a further equal amount of gold, which will require the bullion to be 14 millions.

The actual reserve of the Bank in 1844 was 8 millions. The Bank circulation was 19 millions. The bullion 13 millions.

The actual reserve in 1866 (January 10) was 6 millions. The circulation 21½ millions. The bullion 13 millions.

We have now therefore in 1866 only a fractional advance on the circulation of

1844, with a smaller reserve, and the same bullion, with which to conduct the operations of five times the capital employed—350 millions compared with 70 millions.

The vicissitudes of a trade will always be somewhat in proportion to its extent. Its expansion and contraction may be fairly measured by a per centage. In like manner, the force of disturbance shows itself by figures proportioned to the extent of the trade.

This is emphatically true as respects its bearing on bullion. The variation of a cotton crop; the necessity of seeking a new market; foreign alarms, or bad harvest; domestic panics—any one or all united will now in 1866 express their force in the casual export or absorption of bullion, where in 1844 our gold deposit would not have been at all affected. The play (to use a familiar word) of the home demand and of the foreign exchanges is now upon a surface of 350 compared with one of 70; and a disturbance which in 1844 would express one quantity, may now express five times its amount.

But under the operation of the Act of

1844 we have now generally no greater deposit of gold to meet foreign calls than we had in 1844. It is in vain to say 'There is nothing in the Act to prevent your now having, instead of 12 millions of bullion, 60 millions.' The conclusive answer is, the Act has been in operation 22 years, and practically our bullion has very little enlarged on the amount held in 1844.

The fact is, the habits of our country do not encourage the use of gold in any of our larger transactions; and in the smaller operations of trade, such as the payment of wages, there is little variation from month to month to require a reserve. It is in vain to argue we ought to have more gold: practice, and not theory, must settle the actual amount; and it is our business as practical men to modify our laws to suit the actual habits of the country, and prevent confusion resulting from our established customs, rather than to insist on theoretic laws which create confusion, unless the country would act otherwise than it does.

Fourteen millions of bullion may be

Variation of bullion too early acted on.

taken as the average of our Bank returns, and yet this only admits of a reserve of 7 millions of notes when the circulation is 22; and an expansion of circulation (as on June 3, 1866) to 26 millions reduces the reserve to 3 millions, and creates unbounded alarm. An export of gold to the extent of 4 millions, when the gold did not exceed the average, would have precisely the same effect.

A disturbance of 4 millions in our bullion creates alarm! In other words, if we are asked to pay away in bullion 1 per cent. of our active commercial capital, the Bullion nerve of the Bank of England is wrung with alarm, and discounts are reduced, and interest is raised, to avoid a crisis.

Result is a constant change in rate of interest and injury to trade.

If we should even assume that the arrangement of the currency in 1844 was perfect as applied to a system of banking which, in the whole, held for discount 70 millions of capital, it would by no means follow that the same arrangement would suit a banking system holding 350 millions. Practically this is what our experience now has proved. An increase of 3 or 4 millions

in the demand for discount, or a drain of 3 or 4 millions of gold, would in a money market of 70 millions indicate a rise in the demand authorising a change in the rate of interest, whilst in a money market of 350 millions it ought to pass unobserved. The Bank of England, however, instead of being able to adapt its movements to the change of circumstances, has felt compelled to act on the old rules; and as the variations of reserve and bullion have multiplied, it has multiplied the changes in the rate of interest until the English money market has acquired a chronic sensitiveness, and no merchant or trader can depend for a single month upon the rate of interest he may have to pay. The evils of this perpetual restlessness are so great that the Chambers of Commerce of the kingdom have remonstrated, and the whole mercantile community severely suffers.

Occurring equally in periods of prosperity as of pressure.

It is obvious, too, that the action upon the note reserve of the Bank becomes most emphatic in periods of activity of trade and general prosperity. Even the bullion will be at these periods affected by an extra amount of gold used in wages, and by new

balances of trade arising from the increase of our imports. It is seen in the table of amount of changes in the rate of interest that the year 1863, which was one of great prosperity, witnessed a greater change in the rate of interest than did 1857, a year of panic, as 5 to 4½. The year 1864, also, which was one of progress and prosperity, maintained a higher average rate of interest (7½) than ruled through 1857, the year of panic (6¾).

When money is in greater demand—as it always will be in active and prosperous years—interest is naturally and healthily higher than in average years. But all the reasons we have assigned as explaining the incompatibility of the Act of 1844 to our present commercial capital apply with equal force to periods of prosperity as to times of pressure.

This decisive action of the Bank, whether the agony arises in the bullion or the note reserve, though it is highly ridiculous when viewed as a national movement—putting 350 millions of capital under the penalty of an increased interest because an extra 3½ millions of bullion is wanted abroad, or

a like amount of extra discount wanted at home—is yet by no means unreasonable, or to be blamed as an act of self-preservation on the part of the Bank itself.

Bank of England too small to supply capital, and pressed unreasonably in panics.

The Bank, as a bank, is expected to provide both discount and notes—capital and currency; and its power to supply capital when the whole kingdom only furnished 70 millions of deposits was sufficiently large to act with considerable effect upon the market. But now that the deposits are five times that amount, the power of the capital of the Bank of England upon the market has become inappreciable. The expansion of private securities held by the Bank of England, which embody its advances, is (speaking roundly) limited to about 10 millions. Its ordinary advances are about 20; its extreme advances scarcely ever exceed 30 millions. What is the power of 10 millions acting upon 350 millions? Perceptible certainly, and very seasonable in a crisis, but by no means commanding.

By long custom in the monetary circles, upon any great crisis—a panic from failures, a scarcity of money for discount—it is considered warrantable to expect the

Bank of England to come to the rescue, and increase its advances. Such an expectation might have been excusable in 1844, but it is now most unreasonable. It does, however, still exist, and leads to an immediate pressure on the Bank in its discount department upon every crisis.*

Inconveniences of uniting Banking with Currency.

At the same moment, because, as we

* At a General Court of the Bank of England for the declaration of dividend, held September 13, 1866, the Governor of the Bank most unexpectedly, if not most unwisely, indorsed this public expectation, saying, '*We could not flinch from the duty which we conceived was imposed upon us of supporting the banking community, and I am not aware that any legitimate application made to this house was refused.*' The Governor must have a strange idea of the duty of the Bank as well as of its powers. He added, the Bank had advanced within three months, from May 11, no less a sum than £45,000,000. The Bank advances on private securities were actually as follows:—

Before the crisis—	
January, 1866	£24,731,687
May 9	20,844,217
During the crisis—	
May 16	30,943,259
June 20	31,209,162
July 11	29,039,534
August 8	26,156,535

Thus it appears the advances of the Bank beyond their current business did not exceed £10,000,000. The whole statement, therefore, must be either a misprint or a misapprehension.

have before seen, in every panic the bankers and public demand an enlarged supply of Bank notes, there is an equal pressure on the Issue department of the Bank for an enlarged currency. In the late panic (1866) the enlarged circulation of notes amounted to 4 millions.

Pressed in both departments, the Bank of England becomes doubly anxious, and resorts to extreme measures to check the demand for discount, and prevent the exportation of bullion.

Aggravated by the Bank becoming the Bankers' Bank.

But the Bank has another source of danger. It is the bankers' banker. Of its 13 millions of deposits, a great proportion—probably one-half—consists of reserve deposits of other banks.* It is the connection between the Bank of England and the currency which makes it the depository of other bankers' reserves. It is well known, from established usage, that

* The bankers' deposits in the Bank are given in the Appendix to the Report of the Select Committee on the Bank Act, 1857. In 1844 they averaged under £1,500,000; in 1857 they were greatly increased; and at the period of the panic, Nov. 12, 1857, were £5,458,000. (See Answer 131 in Report of Evidence on Bank Acts, 1858.)

in every crisis of the Bank the Government will interfere. Public confidence in the Bank is therefore complete. These bankers' deposits may be most violently acted upon in any crisis. If there is a general distrust throughout the country which leads to the withdrawal of deposits, the banks thus called upon draw out their deposits from the Bank of England, and the power of the Bank to discount is in the like proportion contracted.*

Add together the three sources of danger —the call for capital in discounts, the call for notes in currency, and the possible withdrawal of the bankers' deposits—and you have a picture of the Reign of Terror which invades the Bank parlour in every crisis.

Failure of Act of 1844 arises from enlargement of Bank deposits.

Without entering at present upon other topics, the failure of the Act of 1844 may be sufficiently traced to the enlargement of our commercial capital, which has rendered its provisions unsuitable, and to the loss by the Bank of England of its control-

* It is well known that in the late crisis one London bank of unquestioned stability paid back in a few days £3,000,000 of deposits.

ling power in a money market of five times the extent of that of 1844, and by the side of competitors three of whom have outstripped it, and thus reduced it to a fourth-rate position. The action of the Bank, under such circumstances, must necessarily fail of its object, and is practically found to be highly injurious.

CHAPTER VIII.

Ought not the Currency to be separated from the Bank, and become a Government department?

ON THE QUESTION WHETHER THE CURRENCY SHOULD NOT BE WHOLLY SEPARATED FROM THE BANK OF ENGLAND, AND MANAGED AS A GOVERNMENT DEPARTMENT.

This view favoured by leading witnesses before Select Committee of 1840.

THE entrusting of the currency to a Government Commission is by no means a novel proposition. It was discussed before the Select Committee on Banks of Issue in 1840, and was favoured by Lord Overstone, Mr. John Benjamin Smith, Mr. George Warde Norman, Mr. Richard Cobden, and Mr. Muntz, all great authorities.*

* In 1857 this subject was renewed in the form of a proposition for constituting a Central Bank of Issue under Government management, not only to take charge of the issue, but also to manage the Government banking business now entrusted to the Bank of England.

In the Appendix to the Report of the Select Committee on the Bank Act, 1857, page 414, will be found a long report from the Exchequer, drawn up by Mr. Arbuthnot and delivered in by Sir G. Cornewall Lewis, the substance of which is to negative such a proposition on grounds of inconvenience in the management; and in

At the time of the Currency Bill, the Government, however, contented itself with placing the currency under a distinct department of the Bank—the Issue Department—and thus far acknowledged and attempted to guard against the evils of connecting currency with banking.

The Government did not then foresee

that Report occurs the following passage, page 421:—'The most important of the inconveniences which have been pointed out as likely to arise from the severance of the Issue Department from the Bank of England might be avoided if the change were confined to placing that department under the management of State functionaries, and carrying it on, as at present, within the walls of the Bank, without any disturbance of existing facilities.'

Mr. Weguelin, then Governor of the Bank, Mr. Hubbard, ex-Governor, and Mr. Norman, also expressed their opinion against such a State Bank; and in this they had the concurrence of Lord Overstone, who, however, maintained the position that the action of the currency, as regulated by the Act of 1844, was almost mechanical, and in the hands of the Bank could not be mismanaged; but he did not object to its being managed by the State.

It is obvious the question of separation of Issue and the question of the forming a new State Bank are different, not only in degree, but in principle. The retaining of the issues by the Bank was, in 1857, more generally maintained against a Government Board; but the arguments, when viewed in the light of the present facts and experience, were not strong. It will clearly be desirable to carry on the issues within the walls of the Bank, and to maintain the name of the notes, although a Government Commission shall manage it.

Changes since 1844 seem to warrant it.

what subsequent events have made painfully obvious, that in every period of panic the Currency Bill would, if adhered to, cause the stoppage of the Bank of England; or if the Bank, to save itself, withdrew its accommodation, would produce an equally wide-spread disaster. In 1847, in 1857, and again in 1866, the reserve of the Bank was brought so low that the cheques of two of its customers drawing out their deposits would, in each case, have required more notes than the Bank could give, and thus have closed its doors.*

Let us, for a moment, contemplate the composure with which the eye of the Bank

* Upon the evidence before the Select Committee on the Bank Act, 1858 (Question 246), there occurs the following question and answer from the Governor of the Bank:—

'Then if, upon the establishment in Threadneedle Street, there had been a demand for £1,000,000 out of the £5,200,000 of the bankers' deposits, omitting other depositors, under these circumstances the Bank of England would have been obliged to suspend payment?—Certainly: that is, if we suppose it to be taken in cash, and also to be all locked up afterwards; otherwise the reserve would not have been absorbed.'

At this time the Bank had only £384,000 as their total reserve in the Banking Department. (See Answer 876 in same Report.)

directors is kept on the look-out for the storm signal, when they know their vessel will drift upon the rocks and be broken up unless they can cast anchor in Downing Street before the full fury of the storm shall burst upon them.

The extraordinary expansion of Bank deposits, by which any disturbance of credit would act upon five times the amount, could not, in 1844, have been anticipated; nor yet the equally remarkable fact, that with such an expansion of active capital the currency of notes should not expand at all, but that bills, cheques, and a bankers' clearing-house should do the duty of an enlarged currency, subject to collapse, and to be replaced by a note currency in periods of panic; nor yet that, with however great a growth of trade, there should be little growth in the bullion held in 1844; nor yet that the Bank of England should be so outstripped by rival banks as, from the proud position of the first Bank, to sink into the more humble place of a fourth-rate establishment. But now that all these things have occurred, and the evils of a connection between the Bank and the

currency have become more manifest, it can scarcely need any lengthened argument to prove that the entire separation of the two ought to be effected.

The public interests require such a separation to check constant changes of rate of interest.

The public interests require it. The monetary affairs of the kingdom are now kept in a feverish state of unnatural excitement, because upon every paltry enlargement of demand for discounts—even in so small a fraction as 1 per cent. of the ordinary national discounts—or an insignificant demand from abroad for 3 or 4 millions of gold, the rate of discount is raised and the course of trade disturbed.

The only causes which really justify an advance of interest are :—1. The enlarged demand for capital beyond the usual limits of supply; and, 2. The increase in the value of gold beyond our English standard of 3*l.* 17*s.* 10½*d.* But in each case the increased demand ought to be so considerable in proportion to the whole capital employed, or the advance in the value of gold have such signs of permanency, as to warrant the change. To raise the rate of interest upon 350 millions because a demand arises for an extra discount of 3

or 4 millions is absurd. So also to raise interest and depreciate the whole property of the kingdom because a foreign demand for gold has arisen, which may subside and return to us in three or six months, is equally unwise.

A judicious capitalist, if he had command of the market, would, when a call for larger discounts came, carefully consider whether the call was likely to be permanent or temporary. If the latter, he would say, 'I will not raise the interest, lest by checking permanent discounts I should throw more capital out of employment than I now for a season am asked to lend in excess of the usual standard.' If the former, he would increase the rate of discount, believing, at the increased rate, his whole capital will continue to be called for.

Rate of interest ought only to be varied by a meeting of bankers from the whole kingdom, on marked increase of discount.

The consideration and varying of the rate of interest ought not to be confined to the limited area of the Bank parlour, but ought to be committed to the representatives of the great banks of the whole kingdom. A board of London bankers manages the Bankers' Clearing-house,

through which millions are daily passed. A board, composed of deputies from every railway company north of London, manages the Railway Clearing-house. Periodic meetings of deputies from the Ironmasters regulate that trade; and if the oligarchy of the Bank parlour were deposed, the voluntary organisation of a committee of deputies from the banking houses of each great town of the kingdom would soon supply their place, and would deliberate and act, not on the feelings or information of a very restricted circle, but of the whole compass of banking experience.

The frequent changes of the last eleven years unjustifiable.

For the last eleven years we have had on the average ten changes in the rate of interest in each year—nearly one every month; and in the last two years, of 1864 and 1865, there have been fifteen and sixteen changes respectively. Is it possible the value of money over so large a surface as 350 millions can thus frequently change? Certainly not. But the changes are made because the microscopic capital constituting the Bank reserve varies month by month; and under the optical illusion of viewing minute organisms through the

magnifying glass, what is intrinsically insignificant assumes imposing dimensions, and its variations are, by the solar microscope of the Bank of England, read as the variations of the whole banking deposits of the kingdom.

If the Government took charge of the currency, and the Bank of England were no longer responsible, but applied itself, as it ought to do, solely to the business of a banker, the Bank would be merely an important member in the great commonwealth of bankers, and its banking reserve would be—as it is really now—of no more account than the reserve of the London and Westminster, or any other of our great Joint Stock Banks. Instead of public attention being directed to the expansion and contraction of an aërial child's toy of an eccentric 7 millions, detached from the terrestrial body of 350 millions, the monetary world would await the periodic deliberations of the committee gathered from every part of the kingdom, embodying the experience of the actual administrators not of the 7, but of the 350; and if a change of interest were then made, it would

be on the judgment of men whose experience is commensurate with the area it affected.

Foreign demand for bullion does not warrant an increase of rate of interest unless permanent.

But now as respects our reserve of bullion. The sensitiveness of the Bank parlour, however necessary for the safety of a single establishment, charged with the double responsibility of providing banking accommodation and currency under every emergency of commerce, is most unbusinesslike, and even ridiculous, when viewed as the action of the English money market, now become one of the chief money markets for the whole world. We readily appreciate the fact that the value of 3*l.* 17*s.* 10½*d.*, which is our standard per ounce of gold, is a relative and not an absolute or real value. We say the Bank note may be exchanged for gold on these terms. The presumption on which we act is, that gold will pass current and maintain the same relative value *to the* currency, or *as* the currency of every other nation. But gold, like every other article of commerce, is of value only just in proportion as it is in demand. It is a particular medium for conducting trade, and

under certain circumstances no other will supply its place. When this happens, gold must be had or the trade abandoned.

When the course of trade has so established itself as to work out a balance by which bills for imports can be paid by exchanging them for counter bills for exports, no gold is wanted; but when, on either side, the trade enlarges or contracts so as to disturb the balance, then, unless we avail ourselves of some counter-balance from another quarter, and use the bills which this gives, we must pay in gold. These circumstances, almost irrespective of the value of gold, will lead to an export of gold; but such export is often very temporary, and the bullion, by the shifting course of trade, soon finds its way back again.

The economic and mercantile question which arises here, is—Will you, if you want more gold than the ordinary course of trade has furnished, buy gold for the occasion, at the extra price it actually bears? or will you treat the demand as permanent, and try to adopt means to reduce the value of stocks and property in the

kingdom, so as to make 3*l.* 17*s.* 10½*d.* represent a larger quantity than before? or will you raise your standard? But without grappling with the greater and more serious question of alteration of the standard, we may safely say, if the demand for gold is merely of a temporary character—to meet some new trade until a counter-balancing trade arises, or to provide for the shifting balance of an old trade which may be reversed next year—then buy gold for the occasion, and do not disturb your property or your standard.

In the case of Bills of Exchange, our merchants do not adopt any circuitous action; but whenever bills are wanted for special purposes, they give a premium for them. Thus, if our imports from Egypt were in excess of our exports, and we should have to send gold to pay the balance of trade, our merchants would look out for bills on Egypt, and would give beyond the current rate of discount any premium which would be less than the cost of transmitting gold, because the bill would answer the same purpose. In this case the merchant does not establish

any rule that for all time to come he will give a premium on Egyptian bills, nor are Egyptian bills permanently raised in value; but he wisely judges that for this special occasion it answers his purpose to pay the premium.

If the Bank of England were no longer the manager of the currency, and therefore not responsible for the supply of gold, the quantity of gold in reserve would not affect that establishment more than any other bank in the kingdom, and the nervousness with which the Bank now watches the dimensions of the bullion would cease, and the Government would take proper measures for constantly securing the convertibility of the notes which were issued.

The separation would not injure but benefit the Bank of England.

But the change is also desirable on the part of the Bank of England itself. The Bank is a mere mercantile establishment, aiming to make as much profit as can be safely gained. Compare the profit of the Bank with that of its great Joint Stock rivals, and you are contrasting a Bank Dividend of usually 8 per cent. with Joint Stock Dividends of 25 per cent.

The London and Westminster, for instance, which, with a capital of 1 million, acquires deposits of near 20 millions, divides 25 per cent. on its capital. Assuming it to make 5 per cent. on the use of its own proper capital, it must further make 1 per cent. upon its deposits to pay the dividend. The Bank of England, with 14 millions of proper capital, and deposits, public and private, of 21 millions, if it makes 5 per cent. upon its own capital, only adds 2 per cent. profits upon its deposits to earn its dividend. This profit of 1 per cent. on deposits is made by the London and Westminster after paying a high rate of interest to its depositors, whereas the Bank of England only earns 2 per cent. on its deposits, although it pays depositors no interest whatever.

The reason of this anomaly is that the Bank of England pays the penalty attached to power. It is expensive. The banking community gladly exalt the Bank of England to the throne of '*Autocrat of all the Banks.*' But while they thus bestow an empty honour, they impose a real tax in the obligation of an idle reserve of

one-third of its deposits, which none of them maintain for themselves, and in the yet more onerous, if not impossible obligation of finding capital in periods of panic. In such crises, the peril of handling customers clamouring for heavy discounts is like snatching chesnuts from a lively fire; and if you can make other hands than your own subservient to the process, it is a feat of equal adroitness and discretion. The bankers generally deposit balances with the Bank of England, but the Bank find it a dangerous generosity. In 1847 Sir Robert Peel's obstinate adherence to the Currency Act was only overcome (as cotemporary history relates) by the intimation from the bankers that they must, if the Act was not suspended, withdraw their deposits—an operation which would at once have closed the Bank. And in a much more recent crisis, it is even whispered that sounds equally significant floated through the atmosphere of St. Stephen's and Downing Street. The value to the banking interest of having the Government Bank in their power, at any period of panic, is obvious. Whilst the

bankers' deference to the Autocrat of Threadneedle Street may remind us of the courtly humility with which the Black Rod of St. Stephen's appears at the Bar of the House, we can imagine the arch twinkle which crosses the eye as they glance at one another, and seem to say, 'This is a paternal Government.'

The Bank of England has the questionable honour of originating every change in the rate of interest, but its rivals profit by them to a greater degree than the Bank itself. In a rising market, the Bank, with its three great perils before it—a pressure for discount, a pressure for currency, and a withdrawal of bankers' reserves—dare not discount to the full. In a falling market, the Bank does not reduce interest until it is left almost without discount applications.

These circumstances may somewhat explain the anomaly; but, whether adequately or not, the startling fact still remains that the Bank of England with all its privileges and with the Government as its customer, with the habit of paying no interest to depositors, actually makes upon

its capital only about one-third of the profit made by its competitors.

Relieve the Bank from its onerous currency responsibilities and its consequent isolation, and let it enter the lists with the Joint Stock Banks on strictly commercial principles—presenting as it does the solid security of a paid-up capital of 14 millions, with a rest of 4 millions—and without doubt you will confer on the Bank the power of greatly increasing its dividends, whilst you deliver the country from the mischiefs the present false combination of banking and currency entails.

Would lead to each bank providing its own reserve.

A collateral, but by no means unimportant consequence of relieving the Bank of England from the responsibility of the issues will be to throw each bank upon its own resources, and thus lead to each bank providing its own reserve.

The present system of leaning upon one Bank and relying upon the power to compel the Government to sustain that Bank by suspending the currency law and giving unlimited issue, with a consequent expectation of unlimited advances, is in the highest degree unsatisfactory. The alarm

We cannot in legislation ignore the fact that from our national habits and feelings there does result a state of the money market we call a panic, when the currency must be suddenly enlarged and a temporary departure from its self-regulating action must be made.

The theoretic principle adopted by the Currency Act is that, beyond 15 millions of notes, gold will always be brought and lodged in the Issue Department when notes are wanted. The practical principle upon which the monetary world has chosen, in defiance of the expectations of our legislators, to act, is to conduct the active use of five times the capital which was employed at the date of the Currency Act without asking for more notes, and without using gold, by making bills and cheques do duty as currency.

If notes had been used instead of bills and cheques, we should not, indeed, have had five times the currency because we have five times the active capital, since currency does not enlarge in an equal ratio with capital; but we should have swelled our national 40 millions of notes into

perhaps 100 millions, and when a panic came it would not have shown itself in an additional demand for notes as currency, but would be confined to capital, and be seen on the part of the bankers in restricting discount, and on the part of the public in withdrawing deposits, or in failures for want of the customary discount accommodation.

No legislation can provide capital in such a crisis. The lenders and the borrowers must face the panic and make the best of it. But legislation ought to provide currency as speedily as the panic may suspend cheques and bills, and call for notes to replace them.

If we measure the extent of such a call by past experience, it has never, under the Act of 1844, reached 10 millions: 5 or 6 millions added to the notes, and 3 or 4 millions withdrawn for home purposes from the bullion, have been the limit.

Power to issue on Government securities for short periods,

What we seem to need as a modification of the Currency Act when the management is in the hands of a Government Board, is a power to issue notes for such

charging interest, would give

occasions under safeguards which will speedily bring back the notes when the distrust of bills and cheques has passed by. In America the banks are allowed to issue on deposit of Government securities. A like plan might be adopted here, except that the issue should be by the Government Board. The bankers or parties lodging Government Stock or Exchequer bills might be allowed to receive notes to the extent of 90 per cent. of the market value for any period not exceeding two months, paying a commission equal to a rate of 8 or 10 per cent. per annum. This is in effect what is done by the Bank of England in panics when the Currency Act is suspended. The Bank take bills instead of Government securities, but the advance of notes is altogether out of the purview of the Currency Act, to meet the necessities of the case.

For home purposes this arrangement would improvise a note circulation on any emergency; and as our panics are simply the result of home disturbances, and of a rush for Bank notes under the fear of their running short, it is wholly a question of

home circulation. But, even if it should in any slight degree lead to the export of gold, the commission paid would meet the expenses of the Government in providing for the convertibility of the notes.

It would be sufficiently guarded against becoming a demand for capital, by the necessity of transferring stock exceeding by 10 per cent. the market value of the notes, and by the rate of interest charged by way of commission.

This, power being given by an Amended Currency Act, would become a self-adjusting provision for currency in every emergency which required a sudden expansion of note circulation; and would remove from the public mind that serious element of alarm which arises, first, from the knowledge that the Currency Act of 1844 will, in panics, produce unlimited confusion unless it is suspended; and next, when the suspension is made from the consciousness that our currency is disorganised.

In olden time the price of the Funds was

In the olden time, before the Act of 1844 gave definite form to the reserves of notes and of bullion, and the mind of the

the barometer of the Money Market.

monied world was educated to watch their expansion and contraction, the price of Consols and Exchequer Bills was the barometer of the Money Market, because surplus funds of banks and individuals were largely invested in these stocks. Now, not only has the system of Bank deposits at interest, and consequently larger discounts, diminished this habit, and the custom of lending balances on the Stock Exchange for one single day, or two or more days, further restricted it, but bankers have found, in periods of panic, even Consols and Exchequer Bills utterly unsaleable, and consequently this investment will not suit for a banking reserve.

If the Currency Act allowed the issue of notes, as proposed, it could never happen that such investments would be locked up, but in the worst panic the banker could procure notes to 90 per cent. of the value, and thus, beyond the cash reserves held by banks, they might safely invest in Consols and Exchequer Bills the further reserves, which are only wanted under exceptional pressure. They would receive 3 per cent. dividend, with the certainty of

a power of selling, until a crisis came, and even then of being able to take the note advances under the Act. The price of the Government stocks would again become the money barometer, and we might fairly expect every banker to maintain an adequate reserve for every possible contingency.

This would again happen if Act of 1844 amended.

CHAPTER X.

AS RESPECTS THE FUTURE SUPPLY OF GOLD, ARE ANY SPECIAL PROVISIONS NECESSARY?

How shall future supply of gold be secured?

So much has been said and written on the effect of adverse balances of trade and unfavourable foreign exchanges, that the subject of gold supply has been shrouded in a mystery which has repelled inquiry.

The best service we can render on this head is to give, in a condensed tabular form, our national experience in the drains and supply of gold for the twenty-two years which have elapsed since the Currency Act, and for the twenty-two years which preceded it.

The subjoined tables show in each period the number and amount of each drain, with the highest and lowest amount of bullion, and the intervals in months of each drain and between each drain; also the averages of each:—

Table I.

Drains of Bullion before Act of 1844.

The notation omits the last three ciphers, and no variation under one million is noted.

Number of drains	Period without a drain in months	Dates of each drain	Period of continuance in months	Amount of drain	Highest amount of bullion	Lowest amount of bullion
1	—	1823, Nov. to Feb. 1826 .	27	£12,500	£13,761	£1,261
2	18	1828, Aug. to Aug. 1829 .	12	3,703	10,498	6,795
3	5	1830, July to May 1832 .	22	7,281	12,200	4,919
4	13	1833, June to Oct. 1833 .	4	1,953	11,454	9,502
5	2	1833, Dec. to May 1835 .	17	4,271	10,222	5,851
6	10	1836, March to Feb. 1837 .	11	4,193	8,064	3,871
7	13	1838, March to Aug. 1839 .	17	8,121	10,527	2,406
8	10	1840, June to Oct. 1840 .	4	1,510	4,859	3,224
9	49	1844, March to Nov. 1844 .	8	2,211	16,322	14,111
Average	13		13	£5,082	£10,856	£5,782

Table II.

Drains of Bullion since Act of 1844.

The notation omits the last three ciphers, and no alteration under one million is noted.

Number of drains	Period without a drain in months	Dates of each drain	Lasting in months	Amount of drain	Highest	Lowest
1	—	1844, Sept. to Nov. 1844 .	3	£1,098	£12,888	£11,790
2	12	1845, June to Jan. 1846 .	7	2,937	13,911	10,974
3	7	1846, Aug. to Oct. 1847 .	14	8,053	16,366	8,313
4	5	1848, March to April 1848 .	1	2,152	14,413	12,261
5	26	1850, July to May 1851 .	10	3,616	16,257	12,641
6	14	1852, July to Feb. 1853 .	7	4,226	21,878	17,652
7	4	1853, June to May 1854 .	11	6,396	18,175	11,779
8	7	1854, Dec. to Jan. 1855 .	1	1,899	13,478	11,509
9	5	1855, June to April 1856 .	10	8,446	18,169	9,723

10	2	1856, June to Nov. 1856 .	5	3,544	13,074	9,530
11	8	1857, July to Nov. 1857 .	4	5,357	11,841	6,484
12	7	1858, March to May 1859 .	14	2,964	19,246	16,382
13	1	1859, June to Aug. 1859 .	2	1,709	17,635	15,926
14	2	1859. Oct. 5 to 12 Oct. 1859 .	¼	1,364	17,025	15,661
15	1	1859. Nov. to April 1860 .	5	2,459	16,349	13,890
16	5	1860, Sept. to Jan. 1861 .	4	6,255	15,598	9,343
17	16	1862, May to June 1862 .	1	2,167	16,402	14,235
18	1	1862, July to Jan. 1863 .	6	4,828	17,565	12,737
19	8	1863, Sept. to 9 Dec. 1863 .	3	2,455	14,733	12,278
20	½	1863, Dec. 30 to 20 Jan. 1864	¾	1,377	13,982	12,305
21	2	1864, March to May 1864 .	2	1,924	13,702	11,778
22	1	1864, June to Aug. 1864 .	2	1,706	13,630	11,924
23	10	1865, June to Oct. 1865 .	4	3,466	15,422	11,956
24	1	1865, Nov. to Jan. 1866 .	2	1,599	13,673	12,074
25	2	1866, March to May 1866 .	2	2,255	13,555	11,300
Average	above 6		5	£3,370	£15,546	£12,158

The comparison of the drains and amount of gold brings out the following results:—

TABLE III.

Before the Act, the drains in 22 years were only .	9
Since the Act, the drains in 22 years have been .	25

The largest drains were:—

Before	Since
£12,500	£8,446
8,121	8,053
7,281	6,396
4,271	6,255
4,191	5,357
3,703	4,828
2,211	4,226
The others under two millions	3,616
	3,544
	3,466
	2,964
	2,937
	2,459
	2,455
	2,255
	2,162
	2,152
	The other under two millions

The following are the periods during which the drain has continued, and during which there has been no drain:—

Before		Since	
No drain	Drain	No drain	Drain
Months		Months	
49	27	26	14
18	22	16	14
13	17	14	11
13	17	12	10
10	11	10	10
5	8	8	7
2	4	8	7
	4	7	6
		7	5
		7	5
		5	4
		5	4
		5	4
		4	3
		2 5 times	2 5 times
		1 & under 6 times	1 & under 5 times

The average of the highest amount was :—

Before, 10·856 Since, 15·546

The average of the lowest amount :—

Before, 5·782 Since, 12·152

The average periods of drains and absence of drains :—

Before, No drain . . 13 months . . drains 13
Since, No drain . . 6 months . . drains 5

These tables are very instructive. In the twenty-two years anterior to the Act of 1844, there were none of those safe-

guards which have been adopted in that Act, and under it, by the Bank of England, and yet the number of drains in this unguarded period was only nine, whilst in the like series of years since the Act the changes have been twenty-five.

Cash payments were practically resumed in 1819; and the early drains we have recorded, from 1823 and 1837, were very long-continued, because the country note currency was not restrained in 1825, whilst gold was carried to South America to pay our subscriptions to mining speculations there to the extent of 12 millions; and in 1837–1839, the combination of American failures, increased imports, and bad harvests, brought about the excessive drain of gold.

The amount of bullion has been very much enlarged, under the Act of 1844, compared with the previous period—the maximum average from 10¾ millions to 15½ millions, the minimum from 5¾ to 12 millions—and the question has been discussed, whether this increased amount is due to the safeguards introduced by the Act, or to the gold discoveries. Without

attempting to solve this question, we must examine the system laid down in 1844.

Suggestions to stay drain of bullion, made to Select Committee of 1840 by Lord Overstone, an equivalent reduction of circulation.

The safeguards suggested by our currency regulators for preventing a foreign drain, were by Lord Overstone (in his evidence before the Select Committee on Banks of Issue, in 1840), simply to contract the currency beyond 15 millions in proportion to the efflux of gold. In this view he was supported by Mr. George Warde Norman. It is unquestionably a sound basis of currency, whatever its failings may be in the other effects attributed to it. The Currency Act of 1844 was framed on this principle, and has, beyond 15 millions, ensured the contraction of the currency in the precise proportion to the drain of gold. But though we have adopted Lord Overstone's principle, we have not had the tranquillity he promised us. On the contrary, with the single exception of the year 1825, the drains of gold have been far more frequent, and also more violent, than before.

Its failure.

The reason of the failure of Lord Overstone's plan as a remedy for the drains of gold, is, that in order to enable the con-

traction of the currency to act with effect upon the export of gold, the contraction must practically make money more scarce, and therefore more valuable. When, as in 1844, the deposits in the banks of the kingdom—which really form the active commercial capital of the country, influenced by the drains of gold—were only 70 millions, a withdrawal of 10 millions of gold, and a consequent withdrawal of 10 millions of currency notes, would have a sensible effect upon the Money Market in making money more scarce. But now that the Bank deposits are 350 millions, all actively under discount, the withdrawal of 10 millions would, comparatively, not at all affect the value of money. The relation between the amount of currency and the amount of capital, as Lord Overstone saw it, is now destroyed, and with it the effect of his remedy. This principle is avowed by Lord Overstone before the Select Committee on Banks, in 1857, where he explains the working of his rule (Question No. 4112): 'As the money goes out of the country, the quantity in the country is diminished. That diminution of the quantity remaining in the country inducse

an increased value of that money, and the increased value of what remains stops the exit of money.'

Mr. Tooke, in his evidence before the same Committee, in 1840, proposed a remedy far more powerful, when he suggested that the rate of interest should be raised whenever it was necessary to check the export of gold. Whilst Lord Overstone's plan has always been in operation since 1844, Mr. Tooke's remedy has of late years been invariably adopted also; and we have had both remedies conjointly and stringently in force—with what success our experience has shown.

By Mr. Tooke, the raising the rate of interest.

If the raising of interest is to have any effect on gold, it must raise the value of Bank notes; so that whilst such notes, nominally representing 3*l.* 17*s.* 10½*d.*, can command an ounce of gold, which is selling elsewhere for 4*l.* or 5*l.*, the broker shall be obliged to sell property, which before interest was raised was worth 4*l.* or 5*l.*, to acquire notes representing 3*l.* 17*s.* 10½*d.* In other words, when gold rises in value, interest shall be raised until notes practically rise to the same value.

Effect of advance of rate of interest.

The process is indirect, but to a certain degree effective. The raising the interest of money reduces the value of saleable property. Thus, if interest stand at 3 per cent., the value of funded or other saleable property may be (using the language of the Funds) 95. If interest be raised to 5 per cent., this 95 may be reduced to 90. Land and other immovable property will command 33 years' purchase under a 3 per cent. rate, but only 28 years' purchase under a 5 per cent. rate.

If a broker possessing English property wishes to export gold, he will sell his property, and, receiving Bank notes, will exchange them for gold. But if the saleable value of his property is diminished, and he has to sell proportionately more property to get the notes, he will stay his hand; so far, the raising of interest may stay the export of gold.

The course of advancing the rate of interest, in order to check the export of gold by the sale of English property, is only effective to the extent to which our property is depreciated. Expressed in another form—when bullion, considered as money,

has become of more value abroad, we increase the interest to make money more valuable at home.

Another effect of the advance of interest is to attract capital from abroad, on the ground that greater profit accrues from its employment in England than in the foreign country from which it is sent. This capital sent here will take the form of bullion, or of a claim on a foreign country which will supply the place of bullion to parties making foreign remittances.

But this process has its limits and its hindrances. The rate of interest cannot be fixed arbitrarily, nor does it now, in our present banking resources, depend upon the amount or fluctuation of gold or currency. It depends solely upon the demand and supply of capital. If the Bank should require to raise interest to 10 per cent. in order to check the efflux of gold, and the active capital cannot find discounts at a higher rate than 5 per cent., the attempt of the Bank to raise the rate higher will altogether fail. The call of even 10 millions of gold for foreign purposes cannot sensibly diminish the supply of capital for discount,

and therefore will not soundly authorise the raising of the rate of interest; and the effort to stop the exportation of gold by an empirical action can never be safely relied upon.

No artificial plan will prevent drains of gold. Course of trade will return it.

It is clear from these considerations that neither the limitation of notes by the gold in deposit, as suggested by Lord Overstone, nor the raising of interest, as proposed by Mr. Tooke, can be fully relied upon to furnish gold or to correct drains of gold. If we do not act on Lord Overstone's plan, we are in danger of producing a depreciated note currency, which would certainly drive away gold; and if we discard Mr. Tooke's plan, of raising the rate of interest when a drain of gold is ascertained to arise from a serious abstraction of capital by foreign investments, we neglect one of the plainest rules of business—that an increased demand betokens increased value. But there are no artificial methods by which you can obviate the recurrence of foreign calls for gold, because they arise out of the balance of trade, which is always varying.

Our wisdom is, not to spend time or strength in an impossible effort to avoid

them, but to address ourselves to the duty of avoiding all circumstances which would unnecessarily create or aggravate them, and having done this to make a full provision to meet them.

Lord Overstone's rule will avoid a depreciation of note currency; and the rate of interest being left to the natural course of trade, will be regulated by periodical meetings of the bankers of the whole kingdom, who are the best and only safe exponents of the relative force of supply and demand; and who will take care for their own advantage to fix as full a rate as the market will bear; and thus prevent an artificial cheapness of money here compared with its value in the markets around us.

Thus guarded, we may safely rely on the course of trade to supply us with the requisite bullion.

Government should take the responsibility of the supply of gold.

But the Government ought, as laid down by Mr. Gladstone, to take '*the responsibility*' of the note issues, by undertaking to provide gold. When the issue of Bank of England notes is wholly with the State, as it ought to be, the State will take the profits, and with them the cost of

keeping the necessary bullion. It is a singular fact, that under the Act of 1844 the Government take the benefit of the first 15 millions of notes by borrowing them, and lodging an inconvertible security.

We are told with equal truth and wisdom, this 15 millions is always absorbed in the home circulation, and therefore it can neither be wanted in gold, nor can it ever become depreciated. This amount experience has proved to be a fixed quantity, always wanted and always in circulation. But beyond 15 millions, the point where necessary circulation stops and excess and consequent depreciation begins is uncertain; and to secure against depreciation, and yet give liberty of circulation, an equivalent gold deposit is required.

So far our political economy is sound. But having thus provided for our home circulation, we have altogether forgotten to provide for our foreign currency. In home circulation the amount varies to the extent of 2 or 3 millions, at different seasons of the year. Dividends are paid,

harvest wages and half yearly wages are paid in certain months, and these months demand the greater circulation. In perfect analogy to our home dealings, we have periodical but uncertain periods in which we have to use currency for our foreign payments of adverse balances of trade, and this must be in gold. The only difference between the two operations is that the extra payments at home generally return in the course of business within a month, whereas our foreign payments may, in the course of trade, extend 3, 6, or even 12 months before they come back.

In the interval between the foreign payment and its return, the home circulation continues the same. The foreign payment does not so diminish our home transactions as to make any sensible difference in the currency required to conduct them.

Practically our home note currency is 40 millions (Bank of England 22, country 18). We have a drain of gold of 8 millions, which is absent for 12 months. We cannot afford to cut down the Bank of England notes of 22 to 14, and we cannot touch the country note circulation. What shall

we do? Our 40 millions is not depreciated, but fully employed and exchangeable for gold; and there is therefore no need to contract it to maintain its value. The obvious answer is, the foreign occasional circulation ought to be as much provided for in the arrangements of our national currency as the home circulation, and the Government who undertakes our whole currency should supply it. They have in hand the value of 15 millions of notes always absorbed at home, and whatever foreign call is made should be supplied out of this fund, without cancelling notes, unless the demand should exceed the 15 millions, and thus trench upon the debateable notes, *i. e.* those which may constitute an over-issue and become depreciated.

It must be borne in mind, as asserted by Mr. Tooke and Mr. Horsley Palmer, formerly governor of the Bank of England, before the Select Committee in 1840, and as is obvious to every one conversant with our present finance, that if our reserve of bullion were larger, the fluctuations from foreign demand would be of little con-

sequence. Lord Overstone, however, dissented from these views, alleging that 'no amount of specie can of itself afford any protection whatever to the convertibility of our notes, unless a contraction of the paper money corresponding to the drain upon the bullion be resorted to.' With reference to guarding against depreciation Lord Overstone's opinion is correct; but in the face of our present experience, and maintaining the contraction of currency laid down in the Act of 1844, we cannot doubt Lord Overstone would recognise the soundness of Mr. Tooke and Mr. Horsley Palmer's opinions.

The foreign demands rarely exceed 5, and have never except in 1825 reached 10 millions, before the tide has turned. Our active circulation in Bank of England notes may be taken at an average of 22 millions; and as 15 millions of these notes are issued under the Currency Act, without gold, that Act only requires a deposit of 7 millions for that amount of circulation. The Bank have on the average maintained a reserve of notes of upwards of 7 millions, for which 7 further millions of gold must be deposited, and 14 millions

of bullion may be taken as the average gold deposit.

This we read as the result of the operation of the Act of 1844, and it may be taken as the normal condition of our currency arrangements as so settled.

The principle of basing notes on an equivalent gold deposit if completely acted on would do it.

But, if the Government were to carry out thoroughly the principle of equivalent gold deposit, and deposit gold for the 15 millions of notes which are issued against the Government debt, instead of giving an inconvertible security, our supply of gold would be more than ample.

If this 15 millions were added to the normal 14 millions usually in deposit, the total would be 29 millions, out of which any occasional foreign call of even 10 millions would create no alarm. Such a subtraction would not endanger the convertibility of the notes, and our past experience shows that the course of trade, without any efforts on our part, will always bring back the gold thus temporarily abstracted.

A normal reserve of 29 millions of gold would always have secured us from a gold panic; and the country has been subjected to these panics because the Government

has chosen to borrow the 15 millions instead of letting it lie in gold in its coffers.

Such deposits not to full extent necessary.

But, although we may safely rely upon the principle of equivalent gold deposit if fully carried out—as under all circumstances ensuring the convertibility of the notes and answering foreign calls without the necessity of contracting the currency—common sense and business experience equally criticise it as far more expensive than is necessary. The tables of drains of gold for the last 44 years show the course of such demand; and if we persist in the plan of not suffering notes to be increased, except on gold, the currency cannot become depreciated, and the regular course of trade will restore any drain. We should also remember, if any new unforeseen demand should come, we can act in the usual way in which such demands are met.

If a Dutch merchant, whose standard is silver, wants gold, he is driven to buy it. If a merchant of any nation with a gold standard does not happen to possess notes which he is entitled to exchange for gold, he must sell property to get notes, and to get gold by the notes. If a trader, beyond

the pale of European or American money markets, wants gold, he specially stipulates for gold instead of bills in payment for his goods. If a capitalist of any nation within the circle of acknowledged money markets wants gold, his bullion brokers buy it by buying bills on any other gold-standard nation and sending them in for payment in gold.

We are told, whilst every merchant, trader, and capitalist throughout the world practically buys gold—as he buys credit in bills of exchange when he wants it for his trade or investments—that it is still contrary to sound policy and wholly inadmissible that any nation should buy gold to answer foreign calls. This prohibition would be perfectly defensible if the note currency were really depreciated. Thus, whilst the United States currency is so disorganised that you must pay 140*l.* in notes to get 100*l.* in gold, it would be madness in their Government to attempt to buy gold and exchange 100*l.* of gold money for 100*l.* of note money in the vain hope of keeping a permanent gold reserve. But where the note currency, instead of being

depreciated, has always commanded an equal amount of gold, and the national reserve of gold is from temporary circumstances reduced below the amount which it is thought judicious to maintain—whilst a long range of experience gives assurance that in a few months the balance of trade will bring back the gold—it surely is wiser to buy, and thus sacrifice the difference between the temporary market price of gold and our national standard, rather than impose upon the country, in the shape of a higher rate of interest, a sacrifice a hundredfold greater.

We are further told we cannot purchase gold at a price beyond our own standard value without being subjected to the frauds which the Governor of the Bank, in his evidence before the Banking Committee of 1857, so humorously describes as practised on the Bank of France—having their own napoleons demanded in exchange for notes at the standard price, and then melted down and sold to the Bank again in ingots at the enhanced price. But the Bank of France learned wisdom, and escaped these frauds by purchasing,

through their own agents, bills on gold-paying countries, and receiving the amount in gold; and we can safely copy, with due caution, the example thus set. We could not hold ourselves out to the world as regular purchasers. If gold should permanently rise (which, in the state of gold supply, is the last thing to be expected), we must raise our standard. But for any occasional purposes, and as an exceptional act, we may safely buy.

Government responsible for conversion will maintain an adequate deposit.

If the Government (who issues the notes, and has received from the public the value of 22 millions of gold in return for a like amount of notes) undertakes to convert the notes into gold on demand, it may either deposit the whole in gold—which would cost the difference between the annual charge of 3 per cent. —now paid to the Bank for the loan upon the 15 millions and its rate if issued to the public—say one half per cent., or 75,000*l.* a year—or it may, acting upon the present basis, pay the cost of providing a deposit of gold never less than the difference between the 15 millions of notes which are always ab-

sorbed in the home circulation, and the total note circulation for the time being. It would thus maintain Lord Overstone's principle of an equivalent gold deposit for all notes beyond 15 millions, but possess in the exception of that 15 millions a margin, either of gold deposited or of responsibility to find gold, so as to allow a drain of 15 millions to occur before the circulation need be curtailed, or to enlarge, to any amount within that range in periods of panic, the issue of notes under the safeguard of a limit of 2 months, with a rate of interest which will bring back the notes immediately the pressure has passed. It would most wisely discharge this duty by copying our great banking establishments to the extent of measuring the calls or drains of gold which experience (as recorded in the tables before given) shows may occur in the mutations of trade, and making an adequate and even ample provision by an average deposit of gold. This, in times of tranquillity, may accumulate in the ordinary course of trade. In exceptional seasons, if there be the slightest fear of its being exhausted, purchase may

be resorted to if necessary. Our past experience would teach us that a deposit of 15 millions of gold will always suffice to meet any drain without resort to purchase. Whatever the demand for conversion of notes, no one would doubt the ability of the Government to command gold to effect it.

Wealth of England will always command gold for currency.

We may also safely rely upon the fact that our country will always, in the course of its world-wide trade, lay by a balance of profit which will year by year add to the wealth of the country, and enable it to command more gold in exact proportion to its wealth. It is our business to keep such a reserve of gold as will provide for the fluctuations of trade, precisely as a banker keeps in his till, or within immediate call, a reserve to supply the fluctuating monthly demands of his customers. In harvest time, and on the recurrence of the periodical provincial wages settlements, the banker finds a demand far exceeding an average monthly call, but he provides for it. England with exports and imports of over 400 millions annually finds, at uncertain periods, balances of trade which must be settled in gold, or

withdrawals by foreigners of investments they had made in this country, which must be paid in gold; and it is the business of those who order the currency of the country to be prepared for it.

If currency were only needed for home purposes, a note made a legal tender would answer every purpose; but the well-ordered currency of every country should be one which will avail for foreign purposes as well as home affairs; and this is provided if we keep such a stock of gold as will answer both without disturbance to our home currency.

Our home population, which now permanently absorbs the 15 millions of notes never needing conversion into gold, has paid full value for these notes; and this value deposited in gold would perfect our currency, and free us from the disturbances of the money market which now arise when foreign calls occur. The mercantile community have certainly the right to demand its deposit in bullion, if the Government do not take the full responsibility of finding gold for paper, and to treat as injurious to the best interests of the nation

the act of borrowing the 15 millions, and thus plunging our commerce into the difficulties of a man who has not change in his till to answer all the calls of his trade.

Restriction of a convertible currency will not check speculation or appreciably diminish the amount of capital.

The cry about encouragement of speculation and the necessity of narrowing the circulation in order to restore the equilibrium of foreign exchanges will be raised; but our experience under the Currency Act, now of twenty-two years, must make us deaf to this cry. Speculation is not promoted by currency, but by capital; and as our currency has scarcely increased at all, whilst our active commercial capital has increased five-fold, we must remit the cry about speculation to the banks who have the management of the capital, and utterly disown its application to the Government in their control of the currency. For the same reason, also, we must emphatically protest against so Quixotic an effort as an attempt to restore the exchanges by withdrawing 5 or 10 millions of currency in order to curtail a capital in discounts of 350 millions.

Our object in currency arrangements is

simple and intelligible—to provide a currency suited to the habits of the country, which may be safely and temporarily expanded under the periodic storms with which we are visited (and this must from the course of our trade be in notes); and to provide that we shall have such a store of gold at the back of these notes as will insure their convertibility, and enable any part of our currency which it is necessary to send abroad in gold to go in gold without disturbing our home operations. Currency, we repeat, is not capital, but only the means of exchanging capital.

Whether our merchants speculate or trade discreetly—whether our bankers deal out the capital entrusted to them wisely or unwisely, can be no subject for legislation, nor affect the currency of the country beyond rendering it necessary to provide adequate currency even for periods of indiscretion; but the currency is powerless to promote or check speculation, or to supply or withdraw capital.

CONCLUSIONS.

Conclusions.

The measures which on the whole seem necessary for placing our currency on a sound basis and providing for the contingencies of a period of panic are:—

1. To disconnect the issue and conversion of notes into gold from the Bank of England, and manage it as a Government department, with the absolute responsibility of providing gold in exchange for notes.
2. To continue the present system of cancelling notes presented in exchange for bullion (beyond the 15 millions now issued without bullion).
3. To allow the occasional issue of notes without gold upon bills limited to two months, accompanied by the deposit of Government securities, charging a commission so much beyond the market rate of interest as will secure the return of the notes when the pressure is past.

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